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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of
SAN JOSE WATER COMPANY
(U 168 W) for an Order Approving
the Sale of the Main Office under
Section 851 and Authorizing the
Investment of the Sale Proceeds
under Section 790.

Application 07-01-035
(Filed January 22, 2007)

**SAN JOSE WATER COMPANY'S
OPENING TRIAL BRIEF**

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I. INTRODUCTION

San Jose Water Company (SJWC) has been providing water service in Santa Clara County, California for over 140 years. It is the largest and oldest investor-owned water utility serving a single contiguous service area in the state of California. Since its founding in 1866, SJWC's service area has grown to approximately 138 square miles in and about the cities of San Jose, Campbell, Cupertino, Saratoga and Monte Sereno, the town of Los Gatos, and other portions of Santa Clara County. SJWC's customer base has grown also, commensurate with the population explosion in Santa Clara County. Presently, SJWC serves a population of approximately one million people through about 215,000 service connections.¹

The amount of available office space for SJWC's corporate and commercial functions, however, has not kept pace with the growth in SJWC's customers and employees. Since 1934, SJWC's headquarters, referred to as the Main Office building, has been located in a historic landmark building at 374 West Santa Clara Street, in downtown San Jose. The Main Office houses all of SJWC's corporate functions and also provides a "walk in" service for customers to pay their water bills or obtain personal assistance from customer service representatives.

During the 73 years that SJWC has occupied the Main Office building on Santa Clara Street, its customer base has increased by more than 900% and its employee head count has grown by nearly 500%. Portions of the city of San Jose surrounding the Main Office have been developed into prime retail space. The San Jose International Airport was constructed only a few miles away, and Highway 87 literally abuts SJWC's property. Yet the size and design of the Main

¹ SJWC Yoo, Ex. SJWC-1 at p. 1.

Office building has *not* been altered. The building's designation as a *historical landmark* prevents any such modifications.

As a result of these many changes, the Main Office building is now noisy and cramped. All available space has been fully utilized regardless of the layout of work areas. There is absolutely no room left for future growth.²

SJWC is an efficient, well run Class A water utility with an impeccable reputation for providing high quality drinking water and excellent customer service. SJWC maintains an outstanding record of compliance with state and federal drinking water standards. SJWC has one of the lowest ratios of customer complaints per customer served and one of the highest ratios of customers per employee among the water utilities this Commission regulates.³ Yet what do cramped quarters at the Main Office have to do with the quality of SJWC's performance?

The existing overcrowding of employees in the Main Office building and the lack of any available office space there for additional employees *risks impacting* the high level of service and efficiency that SJWC has worked hard to achieve. Over the last several years, SJWC clearly has outgrown the Main Office building. SJWC needs to replace the Santa Clara Street building with a larger, more appropriately designed space now.

SJWC has found the space it needs in a building located at 110 West Taylor Street in San Jose, about one mile from the current Main Office. The Taylor Street building has enough interior space and flexibility in design layout to permit SJWC to organize its corporate functions and customer "bill pay" services in an efficient manner. The close proximity of the Taylor Street building to public transportation and parking will provide for convenient customer walk-

² *Id.*

³ *Id.*

in service. SJWC also believes that maintaining a downtown San Jose presence is important to its customers, the community and the City of San Jose, and the new building satisfies those criteria.

SJWC seeks Commission authority to sell its Main Office at 374 West Santa Clara Street. SJWC will relocate its corporate, accounting and general administrative functions, as well as a walk-in customer service center, from the Main Office into the new building it has purchased at 110 West Taylor Street. SJWC will move its call center, billing and remittance functions, and Information Services personnel from the Main Office to the Bascom Avenue campus. SJWC Yoo, Ex. SJWC-1 at p. 7. Selling the current Main Office on Santa Clara Street and replacing it with the property SJWC has purchased at 110 West Taylor Street will best serve SJWC and its ratepayers' needs now and into the future.

II. SJWC's EXISTING OFFICE SPACE IS FULLY OCCUPIED.

The immediate problem facing SJWC concerns the lack of any available office space in the Main Office building. Indeed, the cramped nature of the Main Office building is disruptive to SJWC's operations. As shown below, in order to make space available for new employees in the Main Office building, new cubicles have been crowded into any available open space. In addition, employees have been transferred from the Main Office building to the Bascom Avenue campus in a piecemeal fashion, splitting up departments in the process. SJWC Yoo, Ex. SJWC-1 at pp. 1-2.

SJWC's use of its existing office space is described in Sections A and B, below.

A. The Main Office Building - 374 West Santa Clara Street, San Jose

SJWC has occupied the same building at 374 West Santa Clara Street since the building was constructed in 1934. The office space consists of a 15,900 square foot office building (referred to as the “Main Office”), and a 5,300 square foot data processing facility annexed to the Main Office, for a total of 21,200 square feet. SJWC Yoo, Ex. SJWC-1 at Attachment C; SJWC Stein, Ex. SJWC-1 at p. 3.

Currently, the building is operating at its maximum occupant capacity, with 67 employees assigned to work at 374 West Santa Clara Street. The first floor of the building is the site for certain corporate and senior management offices and cubicles, the customer “bill pay” walk-in area, the Customer Service Phone Center, and cubicles for a portion of the Information Services staff. The second floor of the Main Office building contains offices and cubicles for the remaining corporate executives, the Finance and Accounting departments, the Regulatory Affairs department, and certain support staff. In addition, the room where the Board of Directors meets is located on the second floor. Lastly, the small annex contains the Computer Data Center, the Billing room, and mail facilities. SJWC Yoo, Ex. SJWC-1 at p. 2. *See also* Main Office Floor Plans at SJWC Yoo, Ex. SJWC-1 at Attachment A.

Over the last ten years, SJWC has simply outgrown the Main Office headquarters. Crowded to begin with, SJWC added nine new employees to the accounting and customer service functions in the last several years. SJWC has dealt with this growth in occupancy on an incremental basis by essentially creating inferior workspaces both in the Main Office building as well as at the Bascom Avenue campus. These inferior workspaces are comprised of a variety of substandard cubicle sizes and layouts dictated by the building layout and employee density. Moreover, there is no more room to add, change or improve upon any of the existing office space in the Main Office.

SJWC's Chief Engineer Craig Giordano provided in his rebuttal testimony, Exhibit SJWC-3, more detailed floor plans depicting the current sizes and layout of offices and cubicles on the first and second floors of the Main Office building. As can be seen from Sheet 1 (first floor) and Sheet 2 (second floor), certain employee space allocations are much smaller than they should be and are grossly inadequate under existing conditions. For example, on the first floor of the Main Office, the "New Accounts Window," the "Call Center Representative," and the "Customer Service Supervisor" are each allocated a space to work in that is only half the size of the San Jose Water Company standard work area for that position. SJWC Giordano, Ex. SJWC-3 at p. 2 and Sheet 1. Similarly, on the second floor of the Main Office, the "Staff Accountant" has been allocated a space to work in that is only one-third the size of the Company standard work area for that position. *Id.* These examples are typical of inadequate space allocations and substandard work areas that currently exist throughout SJWC's office facilities.

SJWC witness Mr. Giordano provided further examples of inadequate work areas at page 5 of his rebuttal. At the Main Office building, four Information Service employees are cramped into a shared office that is also used for storage. The training room is a converted storage space of limited size. Two Information Service employees share a single office with one desk and a workstation computer set up on a typewriter table. Two workstations in the Accounting Department are comprised of mini-desks located next to storage space. SJWC Giordano, Ex. SJWC-3 at p. 5.

In addition to crowding new cubicles wherever possible, SJWC has coped with the diminishing supply of available office space by moving existing staff from the Main Office building to other buildings. For example, employees from the Information Services Department in the Main Office building were separated

from their colleagues and moved to work areas at the Bascom Avenue campus in a piecemeal fashion. Other departments located in the Main Office, such as Meter Reading and Field Service, also have been moved to the Bascom Avenue campus over time. SJWC Yoo, Ex. SJWC-1 at p. 3. These piecemeal employee relocations are not ideal since departmental adjacency should be maintained for efficient operations. SJWC Giordano, Ex. SJWC-3 at p. 2.

With the addition of six new positions by 2009, as approved in SJWC's last general rate case, plus anticipated future growth in the number of authorized employees, overcrowding in the Main Office is only going to worsen. Specifically, SJWC's total authorized employee headcount will be 338 by the end of 2009. SJWC's planning studies indicate that by the year 2016, up to 22 more employees will be added to SJWC's workforce. By that time, SJWC expects to need an additional 7,500 square feet of office space to accommodate its employees. SJWC Yoo, Ex. SJWC-1 at p. 3. To be sure, that additional 7,500 square feet of usable office space cannot be "squeezed" into the already overcrowded floor plans within the Main Office building.

In addition to overcrowding and departmental adjacency concerns, other drawbacks to the continued use of the Main Office building are evident. Since construction of the Main Office building in 1934, the Mineta San Jose International Airport was built about two miles away. The San Jose Airport is the 39th busiest airport in the United States, with over 530 aviation departures and landings per day. To SJWC's misfortune, its Main Office building lies directly underneath the flight path for planes taking off from the Airport.

In addition, growth in the Silicon Valley over the last few decades has resulted in the construction of nearby Highway 87, as well as the use of Santa Clara Street as a major thoroughfare through downtown San Jose. The noise from both the Airport and the adjacent automobile traffic penetrates the

windows and doors and can be heard throughout the Main Office. Such noise was not anticipated when the building was constructed in 1934 and thus the building was not soundproofed. SJWC Yoo, SJWC-1 at p. 5.

For all of these reasons, the Main Office has reached the end of its useful life.

B. The Engineering and Operations Campus - 1221, 1251 and 1265 South Bascom Avenue, San Jose

SJWC owns the buildings that provide office space at 1221A, 1221B, and 1251 South Bascom Avenue, San Jose. Together, the two buildings located at 1221 South Bascom Avenue provide 23,200 square feet of space. The building located at 1251 South Bascom Avenue contains approximately 5,700 square feet of space. All available office space in these buildings is fully utilized.

Further, at the time SJWC filed its Application in this matter, SJWC leased the entire second floor of the office building located at 1265 South Bascom Avenue. The leased space was designated as general office use and consists of approximately 11,800 square feet. SJWC Stein, Ex. SJWC-1 at p. 3.

All engineering, operations, maintenance, water quality and personnel functions are performed from the buildings located at 1221A, 1221B and 1265 South Bascom Avenue. The Purchasing Department function is located at 1251 South Bascom Avenue, although about half of the usable space in the building is devoted to storage. The office space in these four Bascom Avenue buildings is fully utilized. These buildings are located close to freeway access to allow rapid deployment of personnel to SJWC's widespread service territory. SJWC Yoo, Ex. SJWC-1 at pp. 1-2. Taken together, SJWC refers to these facilities as the "Bascom Avenue Campus."

C. *DRA's Analysis of SJWC's Existing Office Space*

DRA states that SJWC's purpose in filing this Application is to "provide space for these six positions [authorized in last GRC] and for a possible future employee increase." DRA Han, Ex. DRA-1 at p. 5. But demeaning SJWC's reasons for seeking permission to sell its Main Office property at 374 West Santa Clara Street ignores the evidentiary record SJWC has submitted in this proceeding. As discussed above, SJWC has proven that the Main Office building is outdated and overcrowded, causing inefficiencies, among other problems. Continued growth in SJWC's workforce must expand somewhere beyond the Main Office.

DRA did not present in its testimony an independent analysis of SJWC's inventory of office space or placement of SJWC's workforce in appropriate locations. Indeed, it appears from DRA's testimony that DRA **agrees** with the **total square footage of office space** that SJWC testifies it needs: 65,880 square feet. DRA Kumra, Ex. DRA-1 at pp. 9-10.

Rather, where DRA and SJWC diverge in their evaluation of SJWC's Application is the proper financial analysis to be applied to the alternative solutions to SJWC's "space needs." DRA Han, Ex. DRA-1 at p. 7. DRA's evaluation of the cost of SJWC's alternatives will be discussed below.

III. **SJWC's ANALYSES PROVE THAT SELLING THE MAIN OFFICE AND PURCHASING A REPLACEMENT BUILDING IS IN THE BEST INTERESTS OF RATEPAYERS.**

The goals that SJWC kept in mind while considering its options for office space include to continue providing high quality water and exceptional customer service at reasonable rates, to maintain a dynamic work environment that is efficient, proactive, and attracts top talent into its employee base, and to remain a

strong and committed corporate citizen in the city of San Jose and Santa Clara County. To fulfill these goals, SJWC requires office facilities that promote efficiency, customer service and security.

Having established the fact that the Main Office and Bascom Avenue campus buildings are fully occupied and have no office space available, the next step in SJWC's analysis was to identify and examine reasonable solutions to its space needs. In its 2006 Update to its Strategic Facilities Plan, SJWC considered a wide range of alternatives.

The alternatives SJWC considered included extensive remodeling and renovation of the Main Office building, constructing a new building to house all employees on the Bascom Avenue site, purchasing or leasing a new building or land in Santa Clara County that would house all employees, bifurcating staff by locating the executive staff in one facility and all other employees in another facility, and maintaining only a walk-up customer service site in downtown San Jose while consolidating all other functions and employees at an alternative location. SJWC Yoo, Ex. SJWC-1 at p. 4.

As SJWC further evaluated its options, with the help of its architects, contractors, and economic consultants, it became clear that two alternatives stood out as viable and worthy of further evaluation. At the same time, it also became clear that renovation of the Main Office building was completely infeasible.

A. Renovating the Main Office

The primary driver for relocating out of the current Main Office is the designation of the building as a historical landmark. This "landmark" designation prohibits the construction of internal and external improvements needed to upgrade and expand facilities, implement technology to improve efficiency, provide needed security, and comply with the Americans with

Disabilities Act (ADA) guidelines. The footprint of the building cannot be expanded, nor can additional floors be added. The ability to make changes to the interior of the building is also restricted, if at all possible.

For example, in 2005, SJWC applied for an Historic Preservation Permit to simply replace the glass panes on one western facing office window to help alleviate noise from Santa Clara Street. The permit was denied by the City of San Jose, on the basis that the City did not want any modifications of any kind made to the building. SJWC Giordano, Ex. SJWC-3 at p. 4.

In addition, during the 2003-2004 CEQA process for an adjoining property, the City made clear to SJWC that no modifications or changes will be permitted anywhere on the Main Office building, nor can any buildings be built within a minimum fifty foot circumference of the Main Office. Thus, the square footage available to SJWC within the Main Office building is not going to increase. *Id.*

Further, the Main Office at 374 West Santa Clara Street *is* a **73 year-old** building. The work environment inside the Main Office is disrupted by noise from both the airplane flight path at the San Jose International Airport, and from car and truck traffic on Highway 87 and on West Santa Clara Street. Yet making sound reduction improvements to the Main Office building is *impossible* given the historical status of the building. Further, air conditioning, plumbing and heating improvements are difficult and costly to make due to the age and status of the building, and the fact that such systems were add-ons and not originally built to serve the current occupancy level of the Main Office building. SJWC Yoo, Ex. SJWC-1 at p. 5.

Moreover, the Main Office cannot be renovated to support technology upgrades because reinforced concrete and asbestos were used in the construction of the building in 1934. The boiler room, crawl spaces, roof membrane, window

putty, and ceiling tiles all contain asbestos materials. Therefore, personnel cannot access these areas to make technology upgrades until the asbestos has been removed. *Id.* at pp. 5-6.

Lastly, the Main Office building is not in compliance with the ADA. The building was assessed for handicap accessibility and virtually every aspect of the building does not comply with current ADA requirements -- no elevator; and ramps, handrails, fixtures, and bathroom stalls do not meet code. Furthermore, an elevator cannot be installed in the Main Office building, and the set back from Santa Clara Street does not allow for a handicap ramp at the main entrance to the building. *Id.* at p. 6.

Given the impossibility of renovating and remodeling the Main Office -- a historic landmark building -- SJWC legitimately ruled it out as a possible solution to its office space needs.

**B. Alternative 1 (Leasing Buildings) Compared to Alternative 2
 (Purchasing Buildings)**

Having ruled out renovation and expansion of the Main Office building as a solution to its office space needs, SJWC turned its attention to the two viable alternatives that survived scrutiny. Both alternatives were premised on receiving this Commission's approval to sell SJWC's property at 374 West Santa Clara Street. Both alternatives present various combinations of existing, new and renovated facilities that will accommodate SJWC's current operations as well as future expansion.

In Alternative 1, the employees currently housed in the Main Office will relocate to a combination of leased space in downtown San Jose and the existing buildings that comprise the Bascom Avenue campus. The buildings that SJWC owns at 1221 and 1251 South Bascom Avenue are renovated to make more office

space available. In Alternative 1, SJWC continues to lease the entire second floor of 1265 South Bascom Avenue, and also leases for the first time the entire first floor of 1265 Bascom. The first floor must be renovated to accommodate employees relocated from the Main Office building, as well as provide offices for future expansion. SJWC Stein, Ex. SJWC-1 at p. 2.

In Alternative 2, the changes made to each building (the new downtown building, 1221, 1251, and 1265 Bascom Avenue) are the same. However, instead of leasing the new downtown building, SJWC would purchase the building. Similarly, instead of leasing both the first and second floors of 1265 Bascom Avenue, SJWC would purchase that building too. The net square feet in both Alternative 1 and Alternative 2 are the same -- 65,880 square feet. SJWC Stein, Ex. SJWC-1 at pp. 2-3.

SJWC witness Elliot Stein prepared a financial analysis of the two real estate scenarios, Alternative 1 and Alternative 2. The financial analyses aimed to illustrate the comparative estimated capital outlay and net present value of each alternative and identify the most economically efficient option. Mr. Stein, who has vast experience in evaluating real estate alternatives for the least cost option, developed a dynamic cash flow model to illustrate the costs and recurring expenses associated with each Alternative on an annual basis.

On a net present value basis, Alternative 2 results in the lowest total cost compared to Alternative 1 (and even to the infeasible "Base Case" that consists of "staying put" and renovating the Main Office). The key factor affecting this outcome is the long term cost advantage of owning both the new downtown building and 1265 Bascom compared to paying escalating lease costs over 35 years. SJWC Stein, Ex. SJWC-1 at p. 3.

Accordingly, SJWC has selected Alternative 2, the least cost alternative, to present to this Commission in its Application.

C. *DRA's Analysis*

DRA recommends that SJWC's request to implement Alternative 2 should be denied. DRA believes that "remodeling of the current Main Office (Base Case) and the leasing of additional space at 1265 Bascom Avenue is the least cost option based on the net present value analysis of the future revenue requirement." DRA Han, Ex. DRA-1 at p. 1. There are several errors in DRA's analysis that led to its recommendation. DRA's recommendation, therefore, should not be adopted.

The main difference between DRA's financial analysis of the real estate scenarios and SJWC's financial analysis is that DRA used a revenue requirement model while SJWC used the long-standing and well-established discounted cash flow analysis. The discounted cash flow analysis, not revenue requirement, is the proper and accepted methodology to evaluate the financial feasibility of each real estate option. SJWC Stein, Ex. SJWC-4 at p. 3.

Furthermore, DRA engages in a "cafeteria style" evaluation, selecting certain aspects of the Base Case, Alternative 1 and Alternative 2 to include in its financial analysis without paying attention to the consistency of such choices. For example, DRA used the Base Case assumption that the Main Office can be renovated to increase space, in conjunction with the Alternative 1 assumption that 1251 Bascom will be renovated to increase available space. DRA Han, Ex. DRA-1 at p. 7, lines 17-24. It is clear, however, that in the Base Case, "1251 Bascom facilities remain unchanged." SJWC Stein, Ex. SJWC-1 at p. 2. Other examples of picking amongst the alternatives is found on page 10 of DRA's Exhibit 1 testimony. To be sure, DRA cannot chose one set of assumptions to demonstrate the availability of office space, but then chose a different set of assumptions to argue that DRA has selected the least cost option.

Another error with DRA's "pick and chose" approach to each of the Alternatives is that the total square footages were no longer the same across each of the options (Base Case, Alternative 1, and Alternative 2). DRA's direct comparison of total costs was then misleading. Because of the size differences across the options, an adjustment to comparing costs on a per square foot basis had to be made. When SJWC made the proper adjustment, Alternative 2 remained the least cost option. SJWC Stein, Ex. SJWC-4 at p. 2.

In addition, DRA included \$6.7 million as the cost of the new building in its analysis of Alternative 2, regardless of the fact that SJWC testified repeatedly that SJWC was seeking to include only \$3.8 million in rate base as the cost of the new building. DRA Han, Ex. DRA-1 at p. 7. By making this assumption, which is at odds with the facts in the evidentiary record, DRA skewed its financial analysis against Alternative 2.

For the above reasons, the Commission should disregard DRA's financial analysis and recommendation that SJWC's Application be denied.

IV. GRANTING SJWC AUTHORITY UNDER SECTION 851 TO SELL ITS MAIN OFFICE BUILDING IS WARRANTED.

The evidentiary record shows that the Main Office has reached the end of its useful life. As discussed above with respect to space constraints in the Main Office, that building is no longer necessary or useful in SJWC's performance of its utility operations. Further, the evidence shows that the most economic option available to SJWC is to sell the Main Office building (including the annex) at 374 West Santa Clara Street, purchase a new downtown property located at 110 West Taylor Street for its company headquarters and walk-in customer service center, and consolidate all other functions at the Bascom Avenue campus. Thus, the Commission should give SJWC permission to sell 374 West Santa Clara Street to

Adobe Systems under the existing contract between the parties. SJWC Yoo, Ex. SJWC-1 at Attachment B.

As discussed in the testimony of SJWC witness Palle Jensen, the rate impact of Alternative 2, the least cost option of purchasing the building at 110 West Taylor Street as well as purchasing the building at 1265 South Bascom Avenue, is small. Mr. Jensen prepared a revenue requirement analysis of SJWC's recommended Alternative 2 over the 40-year life of the buildings.

From that revenue requirement analysis, Mr. Jensen has shown that the proposed transaction will result in an increase in SJWC's revenue requirement of about \$1.87 million (calculated for 2007), which equates to an increase of 1.05% above the current revenue requirement adopted for SJWC by the Commission in its last general rate case.⁴ The impact of this increase on the water bill of the average customer using 15 ccf of water per month will be an increase of 51 cents per month (about 1.1%). SJWC Jensen, Ex. SJWC-1 at pp. 4-5 and Attachments A, C and D.

V. SJWC DID NOT VIOLATE SECTION 851 WHEN IT SOLD CERTAIN PARCELS OF LAND.

DRA alleges that SJWC should have filed Section 851 applications for five specific properties that DRA contends SJWC transferred to its affiliate with the Commission's approval. DRA Kumra, Ex. DRA-1 at p. 2. The five specific properties about which DRA is concerned are listed at page 16 of Mr. Kumra's

⁴ DRA argues that SJWC used the wrong net-to-gross multiplier, thereby artificially increasing the revenue requirement. DRA Han, Ex. DRA-1 at p. 8. SJWC does not agree with DRA on this point. The NTG multiplier that Mr. Jensen used in SJWC's revenue requirement calculation was determined in conformance with Commission Standard Practices and a Water Division Memorandum. Ex. SJWC-8. Indeed, the NTG multiplier that Mr. Jensen used was adopted by the Commission in SJWC's last general rate case decision, D.06-11-015. SJWC Jensen, Ex. SJWC-5 at pp. 1-2.

testimony. DRA Kumra, Ex. DRA-1 at p. 16. As shown during cross-examination, there is no merit to DRA's allegation of wrongdoing on SJWC's part.

With respect to all five properties, DRA makes the sweeping allegations that the "properties were included in SJWC's ratebase up until the date of transfer to SJLC [affiliate]." DRA also alleges that with respect to all five properties, "[n]o money changed hands" when SJWC transferred the properties to its affiliate. DRA Kumra, Ex. DRA-1 at p. 16. The evidentiary record contradicts DRA's allegation.

The first property in DRA's list, Lot #274 on First Street in the town of Campbell, was acquired by SJWC in May 1980. SJWC subsequently determined that this property was no longer necessary or useful in the performance of utility operations, so SJWC took this property out of rate base and transferred it to the non-utility property account in April 2004. Almost two years later, in January 2006, SJWC sold this property to a third party, not SJWC's affiliate, for market value. Ex. SJWC-6 at p. 8 (last page of document); Ex. SJWC-7 at p. 5.

The second property in DRA's list, Lot #17, the Los Gatos Reservoir in the town of Los Gatos, was acquired by SJWC in December 1886. SJWC subsequently determined that this property was no longer necessary or useful in the performance of utility operations, so SJWC took this property out of rate base and transferred it to the non-utility property account in October 1990. Almost fifteen years later, in March 2005, SJWC sold this property to its affiliate for market value. Ex. SJWC-6 at p. 8 (last page of document); Ex. SJWC-7 at p. 5.

The third property in DRA's list, adjoining Lots #275 and 281 on West Campbell Avenue near the San Tomas Expressway, in the town of Campbell, was acquired by SJWC in May 1980. SJWC subsequently determined that this property was no longer necessary or useful in the performance of utility

operations, so SJWC took this property out of rate base and transferred it to the non-utility property account in January 2001. About one and one-half years later, in May 2002, SJWC sold this property to its affiliate for market value. Ex. SJWC-6 at p. 8 (last page of document); Ex. SJWC-7 at p. 5.

The fourth property in DRA's list, Lot #276 on First Street in the town of Campbell, was acquired by SJWC in May 1980. SJWC subsequently determined that this property was no longer necessary or useful in the performance of utility operations, so SJWC took this property out of rate base and transferred it to the non-utility property account in April 2000. About five months later, in September 2000, SJWC sold this property to its affiliate for market value. Ex. SJWC-6 at p. 8 (last page of document); Ex. SJWC-7 at p. 5.

Lastly, the fifth property in DRA's list, Lot #214 on Blossom Hill Road in San Jose, was acquired by SJWC in December 1959. SJWC subsequently determined that this property was no longer necessary or useful in the performance of utility operations, so SJWC took this property out of rate base and transferred it to the non-utility property account in July 1997. About two and one-half years later, in December 1999, SJWC sold this property to its affiliate for market value. Ex. SJWC-6 at p. 8 (last page of document); Ex. SJWC-7 at p. 5.

As can be seen, none of the properties identified by the DRA were necessary or useful to SJWC's operations at the time SJWC sold the properties. SJWC did not violate Section 851 of the Public Utilities Code.

VI. CONCLUSION

San Jose Water Company has presented the Commission with evidence to support a logical step-by-step analysis of its requests in this proceeding. First, SJWC has examined whether a lack of available office space in its headquarters

building at 374 Santa Clara Street, San Jose, truly exists. The evidence shows that, indeed, the building has reached the end of its useful life.

Next, SJWC examined multiple scenarios for addressing its existing office space shortage, as well as its long term needs. From those scenarios, SJWC selected the two most reasonable alternatives and then performed a cost-benefit cash flow analysis. From the results of this economic analysis comparing the two alternatives, SJWC selected the alternative that would cost its ratepayers the least amount of money. The evidence shows that the best solution for SJWC and its ratepayers is (a) to sell the Main Office building located at 374 Santa Clara Street; (b) to purchase a new headquarters building located at 110 West Taylor Street; and (c) to purchase the building located at 1265 South Bascom Avenue, thereby terminating SJWC's existing lease of the second floor of that building. The "bottom-line" rate impact to SJWC's ratepayers from removing the Main Office building from ratebase and adding both the new building on Taylor Street and the building at 1265 South Bascom into ratebase, combined with the removal of the current lease expenses for the second floor of 1265 Bascom Avenue, and the addition of one-time moving expenses is a very modest rate increase of \$0.51 per month for SJWC's typical residential customer.

For the foregoing reasons, San Jose Water Company's request for authority under Section 851 of the Public Utilities Code to sell its fee interest in 374 West Santa Clara Street, San Jose, California, to Adobe Systems should be granted. In connection with granting SJWC authority to sell its Main Office property, SJWC should be allowed to remove the book value of this land and improvements from its rate base. Moreover, SJWC should be allowed to retain 100% of the net proceeds from the price paid by Adobe Systems, pursuant to Section 790 of the Code. SJWC does not waive its argument that Section 790

applies to this case and that SJWC should be authorized to reinvest 100% of the net proceeds of the sale to Adobe under Section 790.

Further, SJWC's request to include in its rate base (a) \$3.795 million of the purchase price for the replacement office property located at 110 West Taylor Street, San Jose, California, and (b) the full \$4.3 million purchase price for the office property located at 1265 Bascom Avenue, San Jose, California, should be granted.

Lastly, SJWC should be authorized to file the proposed tariffs attached to SJWC witness Palle Jensen's direct testimony, Exhibit SJWC-1 at Attachment D, to implement the granting of the above-listed requests.

Dated: January 25, 2008

Respectfully submitted,

Patricia A. Schmiede
Law Office of Patricia A. Schmiede

/s/ Patricia A. Schmiede

Patricia A. Schmiede
Attorney for Applicant
San Jose Water Company

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**SAN JOSE WATER COMPANY’s OPENING TRIAL BRIEF**” in A.07-01-035 by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses, as follows:

rs1@cpuc.ca.gov; bon@cpuc.ca.gov; sbh@cpuc.ca.gov; rkk@cpuc.ca.gov;
flc@cpuc.ca.gov; smw@cpuc.ca.gov; palle_jensen@sjwater.com;
pschmiede@schmiedelaw.com.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, as follows: Adrian Hanson, 1231 Forrestville Avenue, San Jose, CA 95510.

Executed on January 25, 2008, at San Rafael, California.

/s/ PATRICIA A. SCHMIEGE

Patricia A. Schmiede